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State Department review completed

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GENERAL

1. West German note attempts to lessen Arab-West German tension:

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The West German Ambassador in Cairo believes that a note he delivered to General Nagib on 9 November will probably forestall the impending break in West German-Arab economic relations. The note states that the West German Government is most anxious to begin conversations with the Arab League over the controversial West German-Israeli restitution agreement, and in effect assures the League that Bonn will not ratify the agreement prior to such conversations.

Comment: On 7 November Nagib promised to use his influence with the Arab League to postpone its threatened economic boycott provided that Bonn would make such assurances.

While the Bonn government steadfastly refuses to abrogate the signed agreement, it might defer to the League by delaying implementation of the agreement or altering the procedures. The West German press, spurred on by Arab threats to turn to East Germany for its imports, strongly urged that substantial concessions be granted.

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FAR EAST

3. Peiping suggests some Chinese POW's need not be repatriated:

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The British delegate to the UN General Assembly reports that the Peiping regime recently advised the Indian Government that it would not demand the repatriation of "Chiang Kai-shek agents" among the

Chinese prisoners taken in Korea.

Comment: Peiping has previously insisted on the repatriation of all 22,000 Chinese POW's, of whom about 16,000 are unwilling to return. There is no indication, however, that Peiping would agree to the classification of any large number of Chinese POW's as "Chiang Kai-shek agents."

On 10 November Vyshinsky stated in the UN that all prisoners should be repatriated regardless of their wishes.

4. Moslem guerrillas reportedly recapture northwest China base:

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Moslem guerrillas recaptured their base in eastern Tsinghai Province on 16 October,

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The battle took place 120 miles west of Lanchow and there were "thousands" of guerrilla and Chinese Communist casualties.

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Comment: A large-scale Moslem rebellion in the adjacent province of Kansu was reported in April.

NEAR EAST - AFRICA

5. Mossadeq again attempts to curb the Shah's power:

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According to Minister of Court Ala, Mossadeq has told the Shah that the Constituent Assembly of 1949, which gave the Shah the right to dissolve the Majlis, was created by the British and that its decisions are therefore invalid. When the Shah suggested that he should dissolve the present Majlis and thus delay approval of its legislation until a new parliament is elected, Mossadeq insisted that the Shah has "no other choice but to bow to the will of the Majlis and sign the bills" without awaiting senate approval.

Comment: The measures which the Majlis has passed recently are all designed to reduce the power of the traditional ruling class.

6. Tribal unrest in northern Iran increases:

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Unrest in the Kurdish tribal areas in northwestern Iran has increased appreciably in recent weeks, according to the American Consulate in Tabriz. Kurdish opposition has already forced the government to suspend its agrarian reform program in these areas.

Arms smuggling and banditry are increasing as army control is gradually being restricted to the larger cities and garrisons. Tribal chiefs are showing a tendency to unite despite the lack of a strong leader. Should the government attempt to enforce its reform program, a serious clash is expected.

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Comment: Although Kurdish chieftains have always resented government attempts to regulate tribal affairs, this is the first time in recent years that they have presented any determined resistance. Tribal opposition to the government will increase as government control of the area deteriorates.

7. Britain attempting to forestall general release of arms to Egypt:

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The British Government will stress to the North Atlantic Council that the release of any considerable quantity of arms to Egypt would undermine Britain's bargaining position for obtaining Egyptian association with Western defense plans. Future British arms policy toward Egypt will depend on Cairo's reaction to the release of 15 jet planes.

Other countries will not be asked to refrain from supplying Egypt with arms, but will be asked to conform to the British policy.

Comment: British Foreign Office officials have stated that once Britain has released the 15 jets, it will be almost impossible to prevent other countries from supplying Egypt with arms.

8. British advisers support Libyan demand for increased US compensation for air bases:

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British financial advisers to the Libyan Government, if asked for advice by Premier Muntasser, will recommend that the United States pay \$2,000,000 a year for the use of bases in Libya, according to British adviser Haley. He told a member of the American Legation in Tripoli that Muntasser would gain a great psychological advantage in parliament if he could state that he had doubled the sum previously agreed on.

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Because of the influence of these advisers and the known attitude of Muntasser, the American Charge believes that Libya will not accept a lower figure.

Comment: Muntasser informed American Minister Villard in August that the \$1,000,000 previously agreed on as annual compensation for US bases in Libya was not sufficient. Muntasser has maintained that unless the compensation is increased, the treaty will not be ratified.

WESTERN EUROPE

9. New Soviet move on German POW's seen likely:

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American officials in Berlin believe that East German initiative in publicizing recent discussions between Prime Minister Grotewohl and leaders of the West German Communist-front "Deutsche Sammlung" may portend

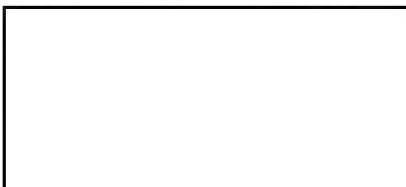
some surprise action from Moscow on the release of German prisoners held since the end of World War II. This is the first time that the Communists have admitted discussing the POW problem with West German representatives.

A Soviet move at this time could be intended to deprive Bishop Dibelius of credit for any favorable Soviet action following his forthcoming visit to Moscow.

Comment: A Soviet concession at this time would more likely be intended to facilitate continuing East German overtures to Bonn for all-German talks.

10. Austrian support for East-West trade controls weakening:

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Austrian officials are now "definitely stiffening" against American pressure on trade controls and some concessions may

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be necessary to ensure their long-run cooperation, according to American Embassy officials in Vienna. They attribute this change in sentiment to mounting unemployment, difficulties in finding alternative Western markets, and the rejection of recent proposals for trade with the Orbit.

Foreign Minister Gruber has urged careful consideration of the plight of a large Tyrolean metals firm whose inability to fill certain Orbit orders will aggravate an already serious unemployment problem.

Comment: Recently proposed tungsten and molybdenum processing agreements with Satellite countries would help alleviate the unemployment problem, but have generally been considered too beneficial to the Orbit. With the elections only about four months away, the coalition government will be particularly vulnerable to pressure for an expansion of foreign trade.

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